



May 18, 2005

Thomas P. Meissner, Jr

Senior Vice President  
Operations & Engineering

Lisa Thorne  
Vice President, Regulatory Affairs  
Verizon New Hampshire  
900 Elm Street, Floor 19  
Manchester, NH 03101

Dear Lisa,

Thank you for hosting our most recent meeting on Intercompany Operating Procedures ("IOP's"), as well as the meetings preceding it. As I stated in the meeting, we truly appreciate the sincere desire of everyone at the table to build strong operating relationships between our companies. In the meetings to date, we have clarified intercompany procedures and identified a number of opportunities to improve customer service and expedite emergency response. At the same time, fundamental differences remain over each company's view of reasonable service levels, mutual advantage, equitable sharing of responsibilities, and the commitment of resources necessary to meet obligations under the Joint Operating Agreement ("Agreement"). There is also disagreement over the interpretation of certain key provisions of the IOP's.

I do not feel it will be necessary for all of us to continue regular meetings to discuss the details of the IOP's and related business practices. It is probably more productive for the operating people at both companies to meet on a periodic basis to continue their discussions to resolve issues and refine practices. Rather than get mired in the details of specific procedures and each company's interpretation of the IOP's, I would prefer to stay focused on the broader principles underpinning the Agreement between our companies.

We have been party to this Agreement for many, many years and through it have enjoyed operating synergies in such areas as line construction, maintenance, inspections, and pole replacements. The Agreement allows work to be divided equitably between companies and provides for the sharing of both capital costs and ongoing maintenance obligations. This equitable sharing of the costs and responsibilities of pole ownership has significantly benefited the customers of both companies. The spirit of this relationship is clearly spelled out in the first page of the Agreement; "the parties desire to provide for the joint ownership of poles and anchors when and where such joint ownership will be of *mutual advantage*."

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We are finding that the Agreement no longer provides the same economic advantage to us, the electric utility, as in the past. It is no longer clear that the Agreement fits the business needs of both parties, or that the practical and regulatory imperatives that were the foundation of the Agreement exist today. We increasingly find the IOP's to be outdated, containing inefficient processes that have remained unchanged for decades and were never intended to meet the realities of today's business environment. Our joint discussions have highlighted differences in the business needs [requirements] of electric and telephone companies, and have shown that these needs are not always consistent or compatible. Our ability to respond to our own customers' needs is compromised and the financial benefits ensuing from the Agreement are no longer equitably shared between the parties.

Given where we are today, I believe there are three basic choices facing Verizon and Unitil concerning the future of our relationship:

1. Continue operating under the Agreement and IOP's where such joint ownership is of mutual advantage;
2. Transition to a sole ownership model in which one company assumes custodial responsibility for the poles and the other party leases space for attachments; or
3. Terminate the Agreement and IOP's, freeing each party to pursue its own interests independently.

With respect to the first alternative, we do not feel that the Agreement and subsidiary IOP's remain a viable business arrangement given our disagreement over the interpretation and application of the Agreement in its current form. It is our conclusion that under the current framework the electric company bears most of the costs and enjoys little of the benefit of joint ownership. In order to remain a party to the existing agreements, we reiterate our position that the Agreement and associated operating procedures be grounded in the principles of *mutual advantage*; *equitable sharing* of costs; and the provision of *reasonable service* levels. Achieving this balance will necessarily require a commitment from Verizon to increase its share of resources and funding under the Agreement.

With respect to the second alternative, we have already tendered a proposal to acquire Verizon's half-interest in all poles in our territories. We continue to believe this represents the best long-term solution given our different business needs and the changing industry environment. We are comfortable assuming exclusive responsibility for custodial obligations and believe this addresses many of the issues we've been discussing. We also believe there are significant advantages to both companies that have yet to be fully explored.

In the event that neither of the first two alternatives is viable, we believe the third alternative is our best course of action. Without prejudice to any positions concerning outstanding amounts owed for tree trimming, terminating the Agreement allows us to meet our own needs as well as the needs of our customers. It will no longer be necessary to jointly plan new line construction or coordinate our response to emergency pole sets; we will simply set what we need. Administratively burdensome coordination and exchange of notice processes will be minimized or eliminated.

Before proceeding with a final decision on any of these alternatives, I think it would be worthwhile to have a high level meeting of decision makers from both companies. The goal of such a meeting would be to reach consensus on the courses of action that best represent the business interests of each company, and to see if there is a middle ground. We recognize that terminating an agreement that has served the parties well for more than 80 years is not a decision to be taken lightly. Our goal is to proceed in a thoughtful and prudent manner, while considering all options.

Again, I would like to thank you for your efforts in facilitating a cooperative relationship between our companies and for your patience and professionalism. I look forward to hearing from you to arrange a meeting as described above, and to coordinate attendance of participants. Please contact me at 603-773-6551 at your earliest convenience.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Thomas P. Meissner Jr.", followed by a long horizontal stroke.

Thomas P. Meissner Jr.  
Senior Vice President  
Operations and Engineering